



December 29, 2009

Sherry Hazel
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Audit and Attest Standards
AICPA
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RE: Proposed Statements on Auditing Standards, *Forming an Opinion and Reporting on Financial Statements; Modifications to the Opinion in the Independent Auditor's Report; and, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

Dear Ms. Hazel:

The Accounting Principles and Auditing Standards Committee (the AP&AS Committee) of the California Society of Certified Public Accountants (CALCPA) is pleased to provide our comments to the Auditing Standards Board (the "Board") on the proposed standard.

The AP&AS Committee is the senior technical committee of the CALCPA. CALCPA has approximately 32,000 members. The Committee is comprised of 50 members, of whom 67 percent are from local or regional firms, 23 percent are sole practitioners in public practice, 5 percent are in industry and 5 percent are in academia.

Following is a summary of the Committee's responses to the proposed SASs for your consideration.

With the exception of certain matters outlined below, our committee feels that the proposed statements on auditing standards are appropriate and strongly support them. A substantial part of the guidance is already followed by many firms as what they consider not only best practice, but necessary.

Specific Questions

- 1. Are the additions to the auditor's responsibility and management's responsibility sections of the auditor's report appropriate for users in the United States?***

We believe that the additions to the management's responsibility section of the auditor's report are appropriate for users in the United States. We believe that users were already generally aware that the financial statements are those of the company and are ultimately the responsibility of management but were not aware of what that entailed. In addition, many believed that the auditor was also responsible for them. The additions to management's responsibilities do a great deal to delineate the roles.

In addition, we believe that the presenting of management's responsibilities in a separate paragraph is a good change to the report. When management's responsibilities for the financial statements are included within the body of either an introductory or scope paragraph, it is too easy for the reader to underestimate the magnitude of management's responsibilities in the context of all of the information provided in the audit report.

We also believe that some of the additions to the auditor's responsibilities section of the auditor's report are appropriate. We believe that the inclusion of the first paragraph, carried over from the extant standards, is appropriate. Certain inclusions in the second paragraph may result in actually widening the expectation gap these additions are intending to close.

- Changing from "examining, on a test basis, evidence supporting the amounts and disclosures" to "obtaining evidence about the amounts and disclosures" may convey to users that a greater amount of evidence is required to be examined.
- The phrase "the auditor considers internal control relevant to the entity's preparation and fair presentation" may convey to users that all controls are given comparable weight and all, for example, are subjected to tests of controls. While it is appropriate to indicate the auditor's responsibility in regard to internal control and important to indicate that the objective is not to express an opinion on internal control, it might be expressed as "The auditor obtains an understanding of internal control relevant to the entity's preparation and fair presentation of the financial statements as part of the basis for the opinion on the financial statements. This understanding does not, however, provide a basis for expressing an opinion on the effectiveness of internal control."

2. *Is the inclusion of section headings helpful in the auditor's report?*

We believe that the inclusion of section headings is helpful in the auditor's report. Not only does it focus the reader's attention on the intent of each section of the report but it also makes it easier to read and assimilate, particularly by less sophisticated users.

3. *Do you anticipate any issues in practice arising from the proposed SAS requiring different, although similar wording of auditor's reports than that required by current PCAOB standards? Do you agree that the ASB's decision to converge with the ISA form of report is appropriate in the United States?*

We believe that the different wording of auditor's reports than that required by current PCAOB standards may create practice issues for those firms that provide attest services for both issuers and non-issuers. These should not, however, be prohibitive. Those firms will have to remain aware of the differences and diligent in making certain that the appropriate reports are used.

Clarity and Convergence

1. *Are the objectives of the auditor appropriate?*

We believe that the objectives of the auditor related to forming an opinion and reporting on financial statements are appropriate.

2. *Are the revisions made to converge the existing standards with ISA Nos. 700, 705, 706, and 710 appropriate?*

We believe, in general, that the revisions made to converge existing standards with the ISAs are appropriate. There are a few specific areas delineated below, that we believe might justify reconsideration.

3. *Are the differences between the proposed SASs and ISA Nos. 700, 705, 706, and 710 identified in the exhibit, and other language changes, appropriate?*

We believe, in general, that the differences between the proposed SASs and ISAs are appropriate, with the following exception:

- We believe that a statement indicating that the auditor is required to comply with ethical standards (page 50 – Auditor’s Responsibility) would be appropriate.

4. *Have considerations for audits of smaller, less complex entities and governmental entities been dealt with appropriately?*

We believe that considerations for audits of smaller, less complex entities and governmental entities have been dealt with appropriately.

Additional Comments

1 – We are concerned about the implications of paragraph A45 of the proposed SAS Forming an Opinion and Reporting on Financial Statements. Expressing an opinion that adjustments to prior period financial statements are appropriate may give the impression that these are the only adjustments that are necessary in order for the prior period financial statements to be fairly presented in conformity with the appropriate financial reporting framework. Without performing an audit of those financial statements, the auditor cannot be certain that one or more additional adjustments may be necessary.

2 – We believe that paragraph A11 of the proposed SAS Modifications to the Opinion in the Independent Auditor’s Report should include at least one example that does not involve the destruction or seizure of client records. Perhaps an example where physical assets were destroyed, perhaps as the result of a natural disaster, subsequent to the balance sheet date making it impossible for the auditor to verify the existence and valuation of those assets at the balance sheet date.

3 – We believe that paragraph A13 of the proposed SAS Modifications to the Opinion in the Independent Auditor’s Report should include an example where management does not provide complete responses to inquiries or does not provide adequate documentation to support the reporting of events or transactions.

4 – We believe it might be beneficial to include the phrase “discussed in paragraph 16” at the end of paragraph A15 of the proposed SAS Modifications to the Opinion in the Independent

Auditor's Report. Some practitioners will read the application and other explanatory material simultaneous with the initial reading of the pronouncement. In that case, the topic is referred to before it is introduced.

5 – We believe that the Auditor's Responsibility section of the illustrations of disclaimers of opinions (Illustration 5 & 6 of proposed SAS Modifications to the Opinion in the Independent Auditor's Report) should include the entire first paragraph of that section from other illustrations before adding the sentence referring to the Basis for Disclaimer.

6 – In Illustration 8 of proposed SAS Modifications to the Opinion in the Independent Auditor's Report, since opinions are being expressed on the 20X2 financial statements taken as a whole and on the 20X1 balance sheet, we believe that the Auditor's Responsibility section of the report should include a statement along the following lines: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for the opinions expressed."

7 – We believe that some of the references to application and other explanatory material seemed to be in error or were confusing in proposed SAS **Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report**. These include:

- Paragraph 6 should refer to paragraphs A2-A4.
- Paragraph 9 should refer to paragraphs A10-A15.
- Paragraph 11 should refer to paragraphs A16-A19 rather than paragraph 10.

8 – Paragraph A18 of proposed SAS **Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report** should refer to restrictions required by paragraph 11 rather than 10(b).

9 – Illustration 1 of proposed SAS **Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report** has a couple of typographical errors. The word "qualified" should be deleted from both the last sentence of the Auditor's Responsibility section of the report and from the heading of the Opinion section.

We thank you for the opportunity to comment on this matter. We would be glad to discuss our comments with you further should you have any questions or require additional information.

Very truly yours,



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